California's Fair Share of Federal Funds

California has increasingly become a donor State, meaning that California taxpayers contribute far more to the federal budget than California receives in federal services. Actions at the federal level have resulted in the State paying for increased costs or expansion of federal-state-local programs, as well as for significant costs for new programs. In recent years, the tax payments that Californians have made to the federal government have significantly exceeded the amount of federal expenditures made in the State. Although there are differing estimates of the magnitude of the gap, the non-partisan California Institute for Federal Policy Research estimates the figure for federal fiscal year 2002 at $58 billion. Additionally, the federal government is increasingly assessing sanctions against California for not meeting rigid administrative requirements. The Administration will work with the federal government and the State's congressional delegation to increase the State's share of federal funding. As such, the Governor's Budget assumes that California will be successful in securing a minimum of $350 million to offset General Fund costs in the 2004-05 fiscal year.

The following are various programmatic examples of inequities in federal funding policies:

Homeland Security

State expenditures in lieu of federal reimbursement for costs related to homeland security have placed significant strain on State resources. The California Highway Patrol alone will have expended approximately $265 million on homeland security without federal reimbursements. Federal funds thus far received by the State have not included funds to reimburse homeland security costs of the California Highway Patrol.

Further, distribution of these funds by the federal government is based on an equal allocation to each state in addition to a per capita allocation. This allocation methodology does not recognize that California has a higher threat and vulnerability to terrorist attacks than most other states. For example, California has tourist destinations and transportation centers that serve the entire nation (e.g., ports of Long Beach and Oakland, international airports, and facilities at the Mexico border) which put the State at greater risk, yet the funding provided by the federal government does not acknowledge this reality.

In an effort to address this unfairness, California's congressional delegation, has introduced legislation that would require the federal Department of Homeland Security to distribute homeland security funds based on threat and vulnerability assessments rather than on population. The expectation is that through a change in the allocation methodology, the federal government will begin to provide the funding necessary to assist California in its effort to combat and respond to the terrorist threats facing the State.

Transportation

California's transportation system supports the national economy and global trading system more than that of any other state. California represents 13.5 percent of the national Gross Domestic Product, 12 percent of the nation's population and is growing by 600,000 persons per year. Californians are doing more than their fair share to address congestion and goods movement problems, passing local transportation sales tax initiatives in 18 counties that represent over 85 percent of the state's population, which have provided $2.3 billion per year for the past three years (local initiatives, on average, commit one-third of their resources to transit, one-third to projects on the State Highway System, and one-third to local projects) and approving Proposition 42 with 71 percent of the vote to commit the sales tax on gasoline to address our own transportation problems. Yet, California receives on average only 9.6 percent of the United States Department of Transportation's Surface Transportation Program.

Much of California's congestion is related to goods movement and tourism, which are drivers of the national economy and global trading system. California handled 53 percent of the total United States merchandise international trade in 2001 and more than half of all the imports coming into the state are transported elsewhere nationally. Working with California's bipartisan delegation to increase federal investment in the national transportation program and a share for California that more appropriately reflects California's contribution to the economy and trade system is one of the Administration's federal priorities.

Medi-Cal

States and the federal government share responsibility for financing the Medicaid program, known as Medi-Cal in California. The federal government matches State spending for the services Medicaid covers on an open-ended basis, with the federal matching rate varying by state from 50 to 77 percent (Figure 1). The federal matching rates, or Federal Medical Assistance percentage (FMAP), are determined by the United States Department of Health and Human Services pursuant to the Social Security Act, and are based on states' per capita income (PCI) compared to the national average. Use of PCI in determining the FMAP disadvantages California, as it is a poor measure of the state's poverty level. It is important to note that California has a high PCI, but also has a high poverty rate.

According to the General Accounting Office, PCI was first used in the 1950s as an indicator of a state's ability to finance programs as well as of a state's poverty level, assuming that low-income states would have higher poverty rates. Since that time, a formal poverty definition has been created, and better measures of fiscal capacity now exist. Thus, formulas originally drafted to help poor people by assuming they reside in low-income states actually shortchange California's large poor population and drain the treasuries of the State and local governments as they backfill the shortfall in federal funds.

Although Section 401(a) of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided California temporary fiscal relief through an enhanced FMAP rate of 53 percent through June 30, 2004, California's FMAP is scheduled to return to 50 percent on July 1, 2004. As such, the Administration will seek further fiscal relief through a continued increase in the federal share of the State's Medi-Cal costs.

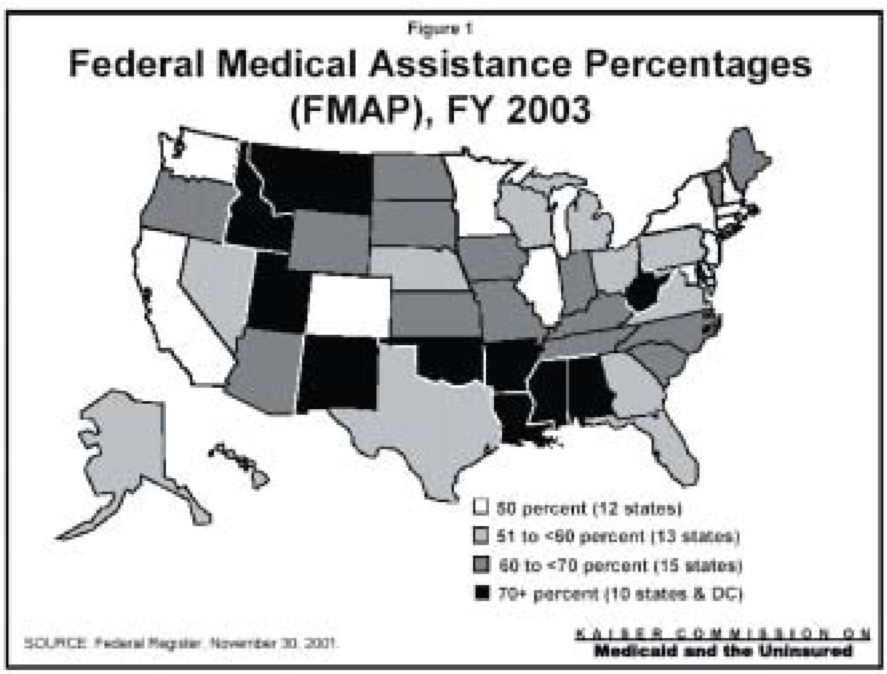
Additionally, the Department of Health Services estimates that the Medi-Cal program will provide emergency and non-emergency services to nearly 863,000 undocumented persons in 2004-05. Although the State receives federal matching funds for emergency services, the State's General Fund is the sole source of funding for non-emergency services such as prenatal, long-term care, and breast and cervical cancer treatment services. It is estimated that General Fund expenditures of approximately $181.7 million will be incurred in 2004-05 to provide these services. The Administration will seek federal matching funds for Medi-Cal non-emergency services for undocumented persons.

Incarceration of Undocumented Felons

The Department of Corrections and the Youth Authority expect to spend approximately $711.2 million in 2004-05 for the incarceration of undocumented persons. For 2004-05, it is estimated that California will receive approximately $66.2 million in federal State Criminal Alien Assistance Program funding. At this level of funding, the State will be reimbursed for only 9.3 percent of the costs associated with the incarceration and related debt service associated with the undocumented felon population, with $645 million in costs in excess of the level of federal reimbursements. The Administration will work with the State's Congressional delegation to secure a more appropriate level of reimburesement.

Child Care Funds

According to an August 2003 report by the California Bureau of State Audits, the allocation of funding under the "mandatory



funds" component of the federal Child Care and Development Fund grant is based upon historical State funding shares under federal child care programs that have not existed since the early 1990s. If the funding allocation for this component was updated to use recent census data, as the "matching funds" component of the same grant already does, then the State could get a significantly larger and more appropriate share of the overall federal grant (approximately $66 million in 2001-02).

Education Tax Credit

Increasing student fees at California's community colleges to the levels proposed by the Administration would enable students to access the maximum federal Pell Grant award of $4,000 per school year. Student fees are currently too low to make the full federal award available to qualifying students, and these federal dollars are therefore not adequately offsetting educational costs for California students. Additionally, not all students may know that if they are making less than $80,000 per year they may be eligible for a federal tax credit equal to their entire fee payments, up to $1,000, during their first two years of college. Fully accessing this tax credit could offset student costs and bring more federal dollars to California.